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SUBJECT: CODEL THOMAS DELIVERS TOUGH MESSAGE ON TRADE

Ref: Quito 1611

1. Summary: In meetings with Ecuadorian Members of Congress, Minister of Trade, AmCham members and President (reported reftel) Codel Thomas delivered a tough message on trade and the FTA, stating clearly that the current ATPDEA benefits will not be renewed, that the U.S. will have no qualms about concluding an FTA with only those Andean countries which can meet the requirements (by implication, without Ecuador), and that the final agreement will not be substantially changed from those agreements already concluded with other countries. Chairman Thomas also told his hosts that for a seamless transition from ATPDEA benefits to the FTA the agreement must be concluded by the end of 2005. The Codel's hosts reacted in quite different ways to this message. End Summary.

Minister of Trade Molestina

2. The Minister of Trade seemed least surprised by Chairman Thomas' message. Accompanied by two Vice Ministers, the Ecuadorian FTA Agricultural negotiator, and various other staff members, Molestina was the most forthcoming we have ever heard him, stating definitively that the FTA will benefit Ecuador and that the GOE is committed to completing negotiations. He said that all the outstanding issues can be resolved and that he saw no reason why the agreement could not be concluded by the end of the year. His Agriculture negotiator, Manuel Chiriboga, said that progress was being made in the Agriculture negotiations now and that he agreed that the negotiations could be concluded this year. Codel members raised commercial disputes and Molestina replied that he had established an office in his ministry to follow commercial disputes full time and that he expected to resolve them.

Congress

3. The Codel's message was not well received by members of the Ecuadorian Congress. President of Congress Wilfredo Lucero (Democratic Left or ID) was accompanied by Congressional deputies Guillermo Landazuri (former Pres. of Congress and ID national president), Jorge Sanchez (ID), Andres Paez (Chair of the Labor Committee-ID), Alfredo Serrano (Chair of the International Affairs Committee-Social Christian Party), and Sandra Palacios Jaramillo (Pachakutik). The deputies all argued that Ecuador should be given special treatment in the negotiations given its poverty and the asymmetry between the huge U.S. market and the small Ecuadorian market. Ecuador's producers needed continued protection, they said, and tariffs should be phased out only slowly. Representative Shaw noted that he hears the same arguments in the U.S. Deputies also referred to geopolitical factors such as the base in Manta as warranting special treatment for Ecuador, but were cautioned by Chairman Thomas "not to overplay that card."

4. Chairman Thomas pointed out that substantial changes in the model that has been agreed to with Chile, Central America, and others would not be possible. He noted that Ecuador also needs labor reform, and to resolve commercial disputes with U.S. companies, and that any expropriation of U.S. assets would rule out a free trade agreement. Representative Weller pointed out the benefits of free trade and inquired about the Ecuadorian view of incursions into Ecuadorian territory by Colombian narco-terrorists. Time constraints limited a substantive response to the latter question, but Lucero indicated that the GOE was not interested in becoming involved in the Colombian conflict, and said he did not believe the FARC was interested in operating out of Ecuador.

AmCham Describes a Bleak Investment Climate

5. The AmCham U.S. Business Steering Committee provided the Codel with a very downbeat assessment of the business climate in Ecuador, noting that little investment is currently taking place as a result of pervasive lack of rule of law and respect for contracts. Committee members

described the problems their businesses face in Ecuador, ranging from inconsistent and changing regulatory environments, to tens of millions of dollars in unpaid state debts, to the threat of outright expropriation. In response to Chairman Thomas' question why the U.S. should sign an agreement with a country which does not respect the agreements it has already signed, U.S. businesspeople expressed hope that the agreement would give the U.S. and others the leverage necessary to change the investment climate.

Comment

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16. The visit by Codel Thomas was extremely effective in delivering a crucial core message to the Ecuadorian government. Many Ecuadorians have continued to hold to a hope that ATPDEA will be extended if the FTA is not concluded. Codel Thomas burst that fantasy once and for all, and we expect to see a significant effect on Ecuadorian seriousness about the FTA as a result. The messages regarding the possibility of going forward with only one partner and regarding the impossibility of fundamental changes from the agreements previously reached with other countries were also important wake-up calls for the Ecuadorians.

Herbert